

Message Text

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SUBJ: ECONOMIC IMPACT OF RECENT DISTURBANCES IN ETHIOPIA

REF: A. ADDIS 3739; B. ADDIS A-129, JUNE 5, 1974

1. ACCORDING ASSISTANT FINANCE MINISTER FOR BUDGET PREPARATION WOLDE MARIAM WOLDE MICHAEL, ETH\$30.3 MILLION SUPPLEMENTAL BUDGET FOR FY-74 RECENTLY SUBMITTED TO PARLIAMENT INCLUDES ETH\$10 MILLION FOR REFINERY SUBSIDIZATION AND ETH\$20 MILLION FOR MILITARY, TEACHER, AND CIVIL SERVICE SALARY AND PENSION INCREASES.

2. REDUCTION IN PREVIOUSLY ESTIMATED ETH\$12.5 MILLION COST OF REFINERY SUBSIDIZATION THROUGH REMAINDER CURRENT FISCAL YEAR (SEE REF A) REFLECTS DECISION NOT EXTEND SUBSIDY TO DUTY-FREE GAS CONSUMERS AND GENERAL DECLINE IN CONSUMPTION DUE TO BUS, TAXI, AND TRUCK STRIKES.

3. FIGURE FOR SALARY AND PENSION INCREASES THROUGH REMAINDER THIS FISCAL YEAR CORRESPONDS ALMOST EXACTLY TO ESTIMATED BREAKDOWN ON ANNUAL BASIS INCLUDED PARA 3 REF A.

4. WOLDE MARIAM WAS VAGUE ON HOW IEG INTENDS FINANCE THESE SUPPLEMENTAL EXPENSES BUT REFERRED TO CUTBACKS IN OPERATING EXPENSES AND NORMAL SHORTFALLS IN CAPITAL EXPENDITURES WITH LIMITED OFFICIAL USE

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RESIDUAL TO BE COVERED BY INCREASED DOMESTIC BORROWING.

5. EMBASSY WOULD NOTE THAT ABOVE FIGURES WOULD REPRESENT ADDITIONAL EXPENDITURES OF ETH\$90 MILLION ON ANNUAL BASIS. WOLDE MARIAM ALSO CONFIRMED EMBASSY BELIEF INCLUDED REF B THAT FY 1975 BUDGET RECENTLY APPROVED BY PARLIAMENT WILL ALSO REQUIRE SUPPLEMENTAL WHICH IS PRESENTLY UNDER PREPARATION.

6. CLEARLY ETH\$90 MILLION SAVINGS CANNOT BE ACHIEVED WITHIN APPROVED FY-75 BUDGET. WE INFORMALLY UNDERSTAND FROM MIN FIN THAT THEY DO NOT YET KNOW HOW THEY ARE TO FINANCE THESE ADDITIONAL EXPENDITURES. CONSIDERATION, HOWEVER, IS BEING GIVEN TO POSSIBILITIES FOR INCREASING TAXES TO COVER HALF (I.E., ETH\$45 MILLION) OF ADDITION

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AL EXPENDITURES WITH REMAINDER TO BE COVERED BY SMALL BUDGETARY SAVINGS ELSEWHERE AND INCREASED DOMESTIC BORROWING PRESUMABLY ON ORDER OF ETH\$40 MILLION. IN MIN FIN VIEW THIS APPROACH, IF SUCCESSFUL, WOULD PERMIT IEG FULFILL EXPRESSED INTENTION TO IMPLEMENT APPROVED FY 75 CAPITAL BUDGET.

7. SO LONG AS IEG FOREIGN RESERVE POSITION REMAINS STRONG, DOMESTIC DEFICIT FINANCING NO GREATER THAN ETH\$75 MILLION IS FEASIBLE AND WOULD PROBABLY NOT BE OPPOSED BY IMF/IBRD AS INFLATIONARY.

8. HOWEVER, REVENUE PROJECTION SEEMS HIGHLY UNREALISTIC. AS INDICATED REF B, PROJECTED ETH\$50 MILLION INCREASE IN FY75 TAX RECEIPTS UNDER EXISTING SCHEDULES IS HIGHLY OPTIMISTIC UNDER CURRENT SLUGGISH BUSINESS CONDITIONS. MOREOVER, WHILE NEW IEG TAXES COULD CONCEIVABLY RAISE PROPOSED ADDITIONAL REVENUE, RESULTING DEPRESSING EFFECT ON ECONOMY WOULD PROBABLY REDUCE AT LEAST SOMEWHAT TAX TAKE ELSEWHERE. WE, THEREFORE, ONCLUDE THAT PROPOSED IEG APPROACH APPEARS OVERLY OPTIMISTIC. IN ABSENCE OF INCREASED FOREIGN ASSISTANCE TO OFFSET LOCAL COST EXPENDITURE, THEREFORE, WE DO NOT NOW SEE HOW APPROVED FY 75 CAPITAL BUDGET CAN BE FULLY IMPLEMENTED. WYMAN

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